

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Grosse Pointe Public Library</u>	County: <u>Wayne</u>
Audit Date <u>June 30, 2004</u>	Opinion Date <u>July 16, 2004</u>	Date Accountant Report Submitted To State: <u>August 27, 2004</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address <u>10 South Main Street, Suite 200</u>	City <u>Mount Clemens</u>	State <u>MI</u>	ZIP <u>48043-7903</u>
Accountant Signature  			

# **Grosse Pointe Public Library**

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## **Financial Report**

**June 30, 2004**

# Grosse Pointe Public Library

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## Independent Auditor's Report

To the Board of Trustees  
Grosse Pointe Public Library

We have audited the accompanying financial statements of the Grosse Pointe Public Library, including the Library's individual governmental funds, the Library as a Whole, and the budgetary comparison statements, as of and for the year ended June 30, 2004, which collectively comprise the Library's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Grosse Pointe Public Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position and changes in financial position of the Grosse Pointe Public Library, including the Library's individual governmental funds, the Library as a Whole, and the budgetary comparison statements, as of and for the year ended June 30, 2004, in conformity with accounting principles generally accepted in the United States of America.

The library management's discussion and analysis identified in the table of contents is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

As described in Note 1, the Library has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003.

*Plante & Moran, PLLC*

July 16, 2004, except for Note 12,  
which is dated August 23, 2004

A member of



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# **Grosse Pointe Public Library**

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## **Library Management's Discussion and Analysis**

### Using this Annual Financial Report

This annual report consists of two parts:

- Library management's discussion and analysis (MD&A)
- Basic financial statements, audited by Plante & Moran, PLLC

The MD&A is intended to serve as an overview analysis of the financial condition and operating results of the Library.

Please direct questions regarding this report to:

Vickey Bloom, Library Director  
Grosse Pointe Public Library  
10 Kercheval Avenue  
Grosse Pointe Farms, MI 48236  
(313) 343-2074

# **Grosse Pointe Public Library**

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## **Library Management's Discussion and Analysis (Continued)**

The basic financial statements on pages 7 through 12 include information that presents two different views of the Library using the modified-accrual and full-accrual methods.

The first four columns of the individual fund balance sheet/statement of net assets and the individual funds statement of revenue, expenditures, and changes in fund balance/statement of activities include information about the Library's General Fund, Capital Projects Fund, 2003 Park Capital Projects Fund, and Debt Service Fund under the modified-accrual method. The modified-accrual basis focuses on current financial resources and provides a more detailed view about the accountability of the Library's sources and uses of funds.

The adjustment column of the financial statements represents adjustments necessary to convert the modified-accrual financial statements to the Library as a Whole financial statements under the full-accrual method. The full-accrual basis focuses on long-term economic resources.

The Library as a Whole column provides both long-term and short-term information about the Library's overall financial status. The Library as a Whole statement of net assets - full-accrual basis column and the Library as a Whole statement of activities - full-accrual basis column provide information about the activities of the Library as a Whole and present a longer-term view of the Library's finances. These columns tell how these services were financed in the short-term, as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

As this is the first year of the library management's discussion and analysis report, and, consistent with Governmental Accounting Standards Board Statement Number 34, this year's report does not show data comparative with prior years. In future years, the condensed financial information section on page 4 will include this information.

# Grosse Pointe Public Library

## Library Management's Discussion and Analysis (Continued)

### Condensed Financial Information

The table below shows key financial information under the full-accrual method in a condensed format. Note: Amounts and totals reported are for all Library activities, including general operations, capital projects, and debt activity - to give a complete picture.

TABLE I	<u>June 30, 2004</u>
<b>Assets</b>	
Current assets	\$ 13,550,385
Capital assets	<u>7,670,694</u>
Total assets	21,221,079
<b>Liabilities</b>	
Other liabilities	418,681
Long-term liabilities	<u>9,916,955</u>
Total liabilities	<u>10,335,636</u>
<b>Net Assets</b>	
Investment in capital assets - Net of related debt	4,047,715
Restricted for capital projects	42,690
Unrestricted	<u>6,795,038</u>
Total net assets	<u><u>\$ 10,885,443</u></u>

TABLE 2	<u>Year Ended June 30, 2004</u>
<b>Revenue</b>	
Property taxes	\$ 4,364,360
Other	<u>387,156</u>
Total revenue	4,751,516
<b>Expenses</b>	<u>3,613,462</u>
<b>Changes in Net Assets</b>	<u><u>\$ 1,138,054</u></u>

# **Grosse Pointe Public Library**

## **Library Management's Discussion and Analysis (Continued)**

### **The Library as a Whole**

The Library's net assets increased by \$1,138,054 this year. The Library's primary source of revenue (approximately 90 percent) is from property taxes, which fund both the General Fund and the Capital Projects Fund.

Salaries and fringe benefits continue to be the largest expense for the Library, which equates to approximately 50 percent of the Library's total expenditures. In 2003-2004, one .5 new position and part-time fringe benefits were added. The salary/wage schedule received a 3.0 percent increase. Health insurance is offered through a cafeteria plan to full-time employees and part-time employees who work 20 or more hours per week.

### **The Library's Funds**

The budgetary analysis of the General Fund is included on pages 11 and 12, which shows the General Fund, the Library's major operating fund, including revenues and expenditures, excess of revenue over expenditures, and fund balance.

As noted above, the largest use of resources during the 2003-2004 fiscal year was for personnel - salaries and wages. This is typical of service organizations that are open to the public seven days a week, year round.

### **Library's Budgetary Highlights**

Over the course of the year, the Library Board of Trustees amended the General Fund's budget to address unplanned needs and events that occurred during the year. The General Fund amendments addressed audit cost increases, increases in temporary library and temporary clerical salaries for RFID tagging, increased printing and auto costs, additional audiovisual costs, and professional management fees. Increases in contracted services and labor expenses related to the new Woods library branch.

Significant variances in the General Fund's revenues were due to a reduction in state aid and continuing decreases in interest rates.

### **Capital Assets and Long-term Debt Activity**

At the end of the fiscal year, the Library had \$10,258,128 invested in land, building, improvements, furniture and equipment, books, and materials, including media based on the historical cost and estimated historical cost basis. During the year, a total of \$674,006 was spent to replace furniture and equipment, including computer technology, particularly for added shelving for audiovisual materials. During the year, a total of \$2,374,339 was spent on building and site improvements.

The Library's long-term debt activity consists of capped accumulated compensated employee absences (sick leave) to be paid to eligible employees upon retirement.



# **Grosse Pointe Public Library**

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## **Library Management's Discussion and Analysis (Continued)**

The Library issued bonds during the current year totaling \$9,900,000 for the construction of a new library.

### **Next Year's Anticipated Budget Factors**

The Library Board adopted a resolution to issue approximately \$8.6 million in bonds for the construction of a new Woods library.

# Grosse Pointe Public Library

	Individual Library Funds			
	General Fund	Capital Projects Fund	2003 Park Capital Projects Fund	Debt Service Fund
<b>Assets</b>				
Cash and cash equivalents (Note 4)	\$ 2,307,307	\$ 4,238,159	\$ 6,759,460	\$ -
Due from Capital Projects Fund	33,559	-	-	-
Receivables:				
Taxes	-	175,459	-	-
Fines - Wayne County	70,000	-	-	-
Capital assets (Note 5)	-	-	-	-
Total assets	<b>\$ 2,410,866</b>	<b>\$ 4,413,618</b>	<b>\$ 6,759,460</b>	<b>\$ -</b>
<b>Liabilities</b>				
Accounts payable	\$ 8,299	\$ -	\$ 230,274	\$ -
Accrued and other liabilities	79,283	-	13,443	-
Due to General Fund	-	33,559	-	-
Long-term liabilities (Note 6):				
Due within one year	-	-	-	-
Due beyond one year	-	-	-	-
Total liabilities	87,582	33,559	243,717	-
<b>Fund Balances - Unreserved</b>				
Designated:				
Capital projects	-	4,380,059	6,515,743	-
Development programs	86,148	-	-	-
Undesignated	2,237,136	-	-	-
Total fund balances	2,323,284	4,380,059	6,515,743	-
Total liabilities and fund balances	<b>\$ 2,410,866</b>	<b>\$ 4,413,618</b>	<b>\$ 6,759,460</b>	<b>\$ -</b>
<b>Net Assets</b>				
Invested in capital assets - Net of related debt				
Restricted for capital projects				
Unrestricted				
Total net assets				

## Individual Funds Balance Sheet/Statement of Net Assets June 30, 2004

Total - Modified- accrual Basis	GASB No. 34 Adjustments (Note 2)	Library as a Whole Statement of Net Assets - Full-accrual Basis
\$ 13,304,926	\$ -	\$ 13,304,926
33,559	(33,559)	-
175,459	-	175,459
70,000	-	70,000
-	7,670,694	7,670,694
<b><u>\$ 13,583,944</u></b>	7,637,135	21,221,079
\$ 238,573	-	238,573
92,727	87,382	180,109
33,559	(33,559)	-
-	101,700	101,700
-	9,815,255	9,815,255
364,858	9,970,778	10,335,636
10,895,802	(10,895,802)	-
86,148	(86,148)	-
2,237,136	(2,237,136)	-
13,219,086	(13,219,086)	-
<b><u>\$ 13,583,944</u></b>		
	4,047,715	4,047,715
	42,690	42,690
	6,795,038	6,795,038
	<b><u>\$ 10,885,443</u></b>	<b><u>\$ 10,885,443</u></b>

# Grosse Pointe Public Library

	Individual Library Funds			
	General	Capital	2003 Park	
	Fund	Projects	Capital	Debt
		Fund	Projects Fund	Service
<b>Revenue</b>				
Property taxes	\$ 2,766,492	\$ 1,597,868	\$ -	\$ -
State sources	114,450	-	-	-
Interest	14,483	-	42,690	-
Gifts	4,668	-	-	-
Development	86,874	-	-	-
Fines, rentals, and other	123,991	-	-	-
Total revenue	3,110,958	1,597,868	42,690	-
<b>Expenditures</b>				
Salaries	1,274,220	-	-	-
Employee benefits	368,275	-	-	-
Purchased services	463,357	-	218,825	-
Supplies	653,513	-	-	-
Capital outlay	5,663	465,227	2,634,710	-
Development programs	113,071	-	-	-
Depreciation	-	-	-	-
Other	138	-	6,147	-
Debt service - Interest	-	-	-	268,867
Total expenditures	2,878,237	465,227	2,859,682	268,867
<b>Excess of Revenue Over (Under) Expenditures</b>	232,721	1,132,641	(2,816,992)	(268,867)
<b>Other Financing Sources (Uses)</b>				
Long-term debt issued	-	-	9,900,000	-
Discount on long-term debt issued	-	-	(99,000)	-
Operating transfers in	-	998,371	530,106	268,867
Operating transfers out	-	(798,973)	(998,371)	-
Total other financing sources (uses)	-	199,398	9,332,735	268,867
<b>Excess of Revenue and Other Financing Sources Over Expenditures and Other Uses</b>	232,721	1,332,039	6,515,743	-
<b>Fund Balances/Net Assets - Beginning of year</b>	2,090,563	3,048,020	-	-
<b>Fund Balances/Net Assets - End of year</b>	<b>\$ 2,323,284</b>	<b>\$ 4,380,059</b>	<b>\$ 6,515,743</b>	<b>\$ -</b>

**Individual Funds Statement of Revenue, Expenditures, and Changes  
in Fund Balances/Statement of Activities  
Year Ended June 30, 2004**

Total - Modified- accrual Basis	GASB No. 34 Adjustments (Note 2)	Library as a Whole Statement of Activities - Full- accrual Basis
\$ 4,364,360	\$ -	\$ 4,364,360
114,450	-	114,450
57,173	-	57,173
4,668	-	4,668
86,874	-	86,874
123,991	-	123,991
4,751,516	-	4,751,516
1,274,220	16,955	1,291,175
368,275	-	368,275
682,182	-	682,182
653,513	(482,200)	171,313
3,105,600	(3,096,145)	9,455
113,071	-	113,071
-	516,457	516,457
6,285	-	6,285
268,867	87,382	356,249
6,472,013	(2,957,551)	3,514,462
(1,720,497)	2,957,551	1,237,054
9,900,000	(9,900,000)	-
(99,000)	-	(99,000)
1,797,344	(1,797,344)	-
(1,797,344)	1,797,344	-
9,801,000	(9,900,000)	(99,000)
8,080,503	(6,942,449)	1,138,054
5,138,583	4,608,806	9,747,389
<b>\$ 13,219,086</b>	<b>\$ (2,333,643)</b>	<b>\$ 10,885,443</b>

# Grosse Pointe Public Library

## Budgetary Comparison Statement - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 2,763,506	\$ 2,763,506	\$ 2,766,492	\$ 2,986
County and state aid	43,000	103,000	114,450	11,450
Interest	25,000	25,000	14,483	(10,517)
Gifts	-	-	4,668	4,668
Development	176,412	83,200	86,874	3,674
Fines and rentals	100,000	100,000	114,213	14,213
Penal fines	60,000	-	-	-
Other	-	-	9,778	9,778
<b>Total revenue</b>	<b>3,167,918</b>	<b>3,074,706</b>	<b>3,110,958</b>	<b>36,252</b>
<b>Expenditures</b>				
Salaries:				
Administration	227,348	227,348	217,648	9,700
Board of Trustees	3,780	3,780	3,210	570
Librarians	505,510	498,997	466,467	32,530
Support staff	406,800	400,608	378,113	22,495
Temporary librarian	55,000	61,513	63,917	(2,404)
Temporary clerical	60,000	66,192	70,606	(4,414)
Students	85,000	85,000	74,259	10,741
<b>Total salaries</b>	<b>1,343,438</b>	<b>1,343,438</b>	<b>1,274,220</b>	<b>69,218</b>
Employee benefits:				
Employee benefits	191,800	191,800	183,030	8,770
Retirement	120,000	119,929	73,488	46,441
Payroll taxes	109,000	109,000	100,549	8,451
Workers' compensation	7,966	8,037	8,037	-
Unemployment compensation	6,500	6,500	3,171	3,329
<b>Total employee benefits</b>	<b>435,266</b>	<b>435,266</b>	<b>368,275</b>	<b>66,991</b>
Purchased services:				
Professional/Management fees	67,000	72,000	74,630	(2,630)
Legal fees	51,500	46,500	36,585	9,915
Audit fees	7,500	7,205	6,300	905
Library network	5,100	5,395	5,394	1
Staff development	13,500	13,500	5,872	7,628
Program fees	45,000	43,723	38,982	4,741
Telephone	41,000	41,000	34,447	6,553
Printing	33,500	34,777	38,835	(4,058)
Utilities	48,000	48,000	34,776	13,224
General liability insurance	18,614	18,614	17,754	860
Repairs and maintenance	105,794	105,794	85,089	20,705
Development	65,000	65,000	65,000	-
Rent	19,694	19,694	19,693	1
<b>Total purchased services</b>	<b>521,202</b>	<b>521,202</b>	<b>463,357</b>	<b>57,845</b>

# Grosse Pointe Public Library

## Budgetary Comparison Statement - General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
<b>Expenditures (Continued)</b>				
Supplies:				
Audiovisual	\$ 121,500	\$ 121,500	\$ 125,014	\$ (3,514)
Micro software	62,000	62,000	50,499	11,501
Library books	358,000	358,000	357,186	814
Periodicals	54,000	54,000	49,197	4,803
Auto expense	2,000	2,000	3,452	(1,452)
Building supplies	9,000	9,000	7,859	1,141
Administrative supplies	55,000	55,000	46,089	8,911
Postage	22,000	22,000	13,417	8,583
Memberships	950	950	800	150
Total supplies	684,450	684,450	653,513	30,937
Capital outlay:				
New furniture and equipment	4,200	4,200	3,264	936
Replacement furniture	2,250	2,250	2,399	(149)
Total capital outlay	6,450	6,450	5,663	787
Development programs:				
Books on the Lake	45,000	45,000	35,541	9,459
Senior symposium	30,000	30,000	16,743	13,257
New programs	15,000	15,000	16,197	(1,197)
Development books	40,000	40,000	20,460	19,540
Development tools	1,200	1,200	649	551
Existing programs	25,000	25,000	23,481	1,519
Strategic planning	10,000	10,000	-	10,000
Total development programs	166,200	166,200	113,071	53,129
Other expenses - Tax refunds	700	700	138	562
Total expenditures	3,157,706	3,157,706	2,878,237	279,469
<b>Excess of Revenue Over (Under) Expenditures</b>	10,212	(83,000)	232,721	315,721
<b>Fund Balance - July 1, 2003</b>	2,090,563	2,090,563	2,090,563	-
<b>Fund Balance - June 30, 2004</b>	<b>\$ 2,100,775</b>	<b>\$ 2,007,563</b>	<b>\$ 2,323,284</b>	<b>\$ 315,721</b>

### **Note 1 - Summary of Significant Accounting Policies**

The Grosse Pointe Public Library (the "Library") serves the Grosse Pointe communities and a portion of the City of Harper Woods. The accounting policies of the Grosse Pointe Public Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Library:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations
- Financial statements prepared using full-accrual accounting for the Library as a Whole

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements).

#### **Reporting Entity**

The Library is governed by a seven-member Board of Trustees and managed by a Library director. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in the Library's financial report.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The Library's basic financial statements include both the Library as a Whole and its individual fund financial statements.

#### **Library as a Whole Financial Statements**

The Library as a Whole financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting, which is described below.



### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The statement of activities includes depreciation on long-term assets and eliminates capital outlay expense.

As a general rule, the effect of interfund activity has been eliminated from the library-wide financial statements.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in the library-wide statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

#### **Fund Financial Statements**

The Library's individual fund financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting, which is described below.

Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. All other revenue items are considered to be available only when cash is received by the Library.

## **Note I - Summary of Significant Accounting Policies (Continued)**

The Library reports the following governmental funds:

**General Fund** - The General Fund is the Library's primary operating fund. It accounts for all financial resources of the Library, except those required to be accounted for in another fund.

**Capital Projects Fund** - The Capital Projects Fund was established during the fiscal year ended June 30, 1998 through a residual equity transfer from the General Fund. It is used to record the disbursement of monies specifically designated for acquiring new technology and equipment and for major remodeling and repairs. The fund will be retained until the purpose for which the fund was created has been accomplished.

**2003 Park Capital Projects Fund** - The 2003 Park Capital Projects Fund was established during the current year through the issuance of general obligation bonds. It is used to record the disbursement of monies specifically designated for acquiring property, constructing, and all related costs associated with the Grosse Pointe Public Library - Carolyn and Ted Ewald Branch.

**Debt Service Fund** - The Debt Service Fund was established to make principal and interest payments on the Grosse Pointe Public Library's debt.

### **Assets, Liabilities, and Net Assets or Equity**

**Cash and Investments** - The Library considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Investments are recorded at fair value as of June 30, 2004, based on quoted market prices.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds."

**Property Taxes** - Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

### Note I - Summary of Significant Accounting Policies (Continued)

The 2003 taxable valuation of the Library totaled approximately \$2.8 billion, on which ad valorem taxes levied consisted of 1.5829 mills for the Library's operating purposes. The ad valorem taxes levied raised \$4,338,000 and are recognized in the General Fund and Capital Projects Fund financial statements as tax revenue.

**Capital Assets** - Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, furniture and equipment, and library books, periodicals, and videos are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	7-50 years
Furniture and equipment	5-20 years
Library books and audiovisual materials	5-10 years

**Compensated Absences (Vacation and Sick Leave)** - Through contractual obligations, employees are permitted to accumulate earned but unused sick and vacation pay benefits subject to certain limitations. All vacation and sick pay is accrued when incurred in the library-wide financial statements. A liability for these amounts is reported in governmental funds only for eligible employee terminations as of year end.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### Note 2 - Reconciliation of the Library as a Whole and the Individual Funds Financial Statements

Total fund balances and the net change in fund balances of the Library's individual funds differ from net assets and change in net assets of the Library as a Whole reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the current focus of the statement of the individual governmental funds' balance sheet and statements of revenue, expenditures, and change in fund balances. The following is a reconciliation of fund balances to net assets and the net change in fund balances to the net change in net assets:

<b>Total Fund Balance - Modified-accrual Basis</b>	<b>\$ 13,219,086</b>
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources and are not reported in the funds	7,670,694
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(9,900,000)
Compensated absences	(16,955)
Interest payments on long-term liabilities are not due and payable in the current period and are not reported in the funds	<u>(87,382)</u>
<b>Total Net Assets - Full-accrual Basis</b>	<b><u>\$ 10,885,443</u></b>

# Grosse Pointe Public Library

## Notes to Financial Statements June 30, 2004

### Note 2 - Reconciliation of the Library as a Whole and the Individual Funds Financial Statements (Continued)

<b>Net Change in Fund Balances - Modified-accrual Basis</b>	<b>\$ 8,080,503</b>
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Amounts reported in the statement of activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities; these costs are allocated over their estimated useful lives as depreciation:	
Library books and audiovisual materials	482,200
Capital outlay	3,096,145
Depreciation	(516,457)
 Bond issuances are reported as an other financing source in the fund statements, but not in the statement of activities (where it increases long-term debt)	 (9,900,000)
 Increase in accrued interest reported as an expenditure in the statement of activities, but not in the fund statements	 (87,382)
 Increase in the accrual for long-term compensated absences reported as an expenditure in the statement of activities but not in the fund financial statements	 <u>(16,955)</u>
 <b>Change in Net Assets - Full-accrual Basis</b>	 <b><u>\$ 1,138,054</u></b>

### Note 3 - Budget Information

The annual budget is prepared and adopted by the Library Board and subsequent amendments are approved by the Library Board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2004 has not been calculated. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, except that operating transfers have been budgeted in the revenue and expenditures rather than as other financing sources and uses. During the current year, the budget was amended in a legally permissible manner.

# Grosse Pointe Public Library

## Notes to Financial Statements June 30, 2004

### Note 3 - Budget Information (Continued)

The budget has been adopted on a line-item basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget can be found in the basic financial statements.

### Note 4 - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes local government units to make deposits and invest in accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Library is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Library does not have any specified institutions for the deposit of funds. The investment policy adopted by the Board in accordance with Public Act of 1997 has authorized investment in all items of the state statutory authority as listed above.

The Grosse Pointe Public Library's deposits and investment policies are in accordance with statutory authority.

The Library's deposits and investments are included on the balance sheet under cash and cash equivalents in the amount of \$13,304,926. This amount is classified by Governmental Accounting Standards Board Statement No. 3 in the following categories:

Bank deposits - Checking accounts	\$ 1,158,239
Investments:	
Mutual funds	4,238,159
Bank investment pools	<u>7,908,528</u>
Total	<u>\$ 13,304,926</u>

**Deposits** - The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$1,200,000. Of that amount, \$100,000 was covered by federal depository insurance and \$1,100,000 was uninsured and uncollateralized.

# Grosse Pointe Public Library

## Notes to Financial Statements June 30, 2004

### Note 4 - Deposits and Investments (Continued)

The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Library evaluates each financial institution with which it deposits Library funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Investments** - Investments are normally categorized to give an indication of the level of risk assumed by the Library; however, mutual funds and bank investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act, and the fair value of the position is the same as the value of the pool shares. The Library believes that the investments in the pools and funds comply with the investment authority noted above.

### Note 5 - Capital Assets

Capital asset activity of the Library was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Capital assets not being depreciated:				
Land	\$ 67,530	\$ 530,000	\$ -	\$ 597,530
Construction in progress	708,495	2,326,509	-	3,035,004
Subtotal	776,025	2,856,509	-	3,632,534
Capital assets being depreciated:				
Buildings and improvements	1,405,348	47,830	-	1,453,178
Library books	2,233,500	357,186	(309,810)	2,280,876
Audiovisual material	1,024,000	125,014	(44,055)	1,104,959
Furniture and equipment	1,594,775	191,806	-	1,786,581
Subtotal	6,257,623	721,836	(353,865)	6,625,594
Less accumulated depreciation	(2,424,842)	(516,457)	353,865	(2,587,434)
Net capital assets being depreciated	3,832,781	205,379	-	4,038,160
Net capital assets	\$ 4,608,806	\$ 3,061,888	\$ -	\$ 7,670,694

Capital assets, including library books and audiovisual materials, are recorded at cost. Depreciation expense was \$516,457 for the year ended June 30, 2004.

# Grosse Pointe Public Library

## Notes to Financial Statements June 30, 2004

### Note 5 - Capital Assets (Continued)

**Construction Commitments** - The Library has active construction projects at year end. The projects include the projects related to the 2003 Park bond issue. At year end, the Library's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Park branch	\$ 2,547,947	\$ 2,298,911
Woods branch	<u>-</u>	<u>8,718,202</u>
Total	<u>\$ 2,547,947</u>	<u>\$ 11,017,113</u>

### Note 6 - Long-term Debt

#### Outstanding Debt

A summary of the debt outstanding of the Library at June 30, 2004 is as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
General obligation bonds -							
2003 Building and Site							
Amount of issue - \$9,900,000	2.50%-	\$100,000-	\$ -	\$ 9,900,000	\$ -	\$ 9,900,000	\$ 100,000
Maturing through 2028	4.5%	\$700,000					
Other long-term liabilities -							
Compensated absences	-	-	<u>-</u>	<u>16,955</u>	<u>-</u>	<u>16,955</u>	<u>1,700</u>
Total long-term debt and other long-term liabilities			<u>\$ -</u>	<u>\$ 9,916,955</u>	<u>\$ -</u>	<u>\$ 9,916,955</u>	<u>\$ 101,700</u>

The compensated absences represent the estimated liability to be paid employees under the Library's vacation pay policy. Under the Library's policy, employees earn vacation time based on time of service with the Library.



### Note 6 - Long-term Debt (Continued)

#### Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2004 (excluding employee benefits), including both principal and interest, are as follows:

Years Ending June 30	Amount
2005	\$ 100,000
2006	100,000
2007	200,000
2008	200,000
2009	300,000
2010-2014	1,600,000
2015-2019	2,100,000
2020-2024	2,700,000
2025-2028	<u>2,600,000</u>
Total	<u>\$ 9,900,000</u>

#### Interest

Interest expense of the Library for the year ended June 30, 2004 was approximately \$269,000.

### Note 7 - Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for health, disability, life, workers' compensation, and general liability. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past fiscal years.

### Note 8 - Pension Plan

**Plan Description** - Certain Library employees participate in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

**Funding Policy** - Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each participating entity is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash-disbursement basis. The pension benefit rate totals 12.99 percent of the covered payroll to the plan for the period from July 1, 2003 through June 30, 2004. Basic plan members make no contributions, but contribute to a Member Investment Plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The Library's contributions to the MPERS plan for the years ended June 30, 2004, 2003, and 2002 were \$63,149, \$67,747, and \$72,181, respectively.

**Postemployment Benefits** - Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental, and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for postemployment health care benefits are included as part of the Library's total contribution to the MPERS plan discussed above.

The Library's 2004 contributions represented less than 1 percent of the total employer contributions.

### Note 9 - Defined Contribution Pension Plan

The Library provides pension benefits to all of its union employees and nonunion full-time administrative employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Through contractual obligations, the Library will provide a dollar-for-dollar match of employee contributions (by payroll deduction) up to a maximum payment by the Board of 3 percent of base salary of the employee. In accordance with these requirements, the Library contributed \$9,270.

### Note 10 - Related Party

The Board of Trustees of the Library established a private foundation, the Grosse Pointe Library Foundation (the "Foundation"), for the purpose of generating private support for the Library. The Foundation is a privately held 501(c)(3) with its own eight-member Board of Trustees. During the year, the Foundation conducted various activities on behalf of the Library, including fund-raising and donor-relations, under a service agreement dated July 29, 2003. In return for these services, the Library paid the Foundation \$172,000. There are three common board members between the Library and the Foundation.

### Note 11 - Accounting and Reporting Change

#### GASB No. 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Library has applied the provisions of this statement in the accompanying financial statements (including notes to financial statements). Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for the Library as a Whole
- Capital assets in the statement of net assets includes \$4,185,054 that would previously have been reported in the General Fixed Assets Account Group.

### Note 12 - Subsequent Event

In August 2004, the Library issued 2004 Library Building and Site Limited Tax General Obligation Bonds in the amount of \$8,580,000. The proceeds of the bond issue are designated for the purpose of paying all or part of the costs to acquire, construct, and furnish a building for a new library in Grosse Pointe Woods, Michigan.

July 16, 2004

Members of the Board of Trustees  
Grosse Pointe Public Library  
10 Kercheval  
Grosse Pointe Farms, MI 48236

Dear Members of the Board:

We recently completed our audit of the financial statements of the Grosse Pointe Public Library for the year ended June 30, 2004. As part of our audit, we offer the following recommendations for your consideration.

### Internal Control Matters

In planning and performing our audit of the financial statements of the Grosse Pointe Public Library for the year ended June 30, 2004, we considered the Library's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted instances involving the internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Library's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components do not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable condition, which we do not believe to be a material weakness.

First, we are pleased to note that certain improvements were made related to segregation of duties. Specifically, non-accounting personnel reviews and distributes payroll checks. However, due to the small size of the accounting department, a lack of segregation of duties continues to exist since one individual performs virtually all of the accounting processes. Currently, an individual having the ability to add or delete employees from the payroll system is also responsible for inputting payroll information.

Separating these functions, with the use of non-accounting staff, will enhance internal control.

We also noted other matters during our audit. To assist with the Library's continuous improvement efforts, we offer the following observations/recommendations.

### **New Financial Statement Format**

During the current year, the Library, along with many other governmental units in Michigan, was required to implement a new accounting pronouncement that has changed the format and content of your financial statements. The information that was previously provided in your financial statements has been retained in the new financial statement format. In addition, the following major items have been added:

- *Management Discussion and Analysis:* Management is now required to give an overview of the Library's overall financial position and results of operations.
- *Statement of Net Assets and Statement of Activities:* These additional statements adjust the normal fund-based statements into a combined, full-accrual format. This allows a financial statement reader to see the Library from a longer term perspective. These statements show capital and infrastructure assets, as well as long term liabilities such as any vested pay as part of the Library's financial picture.
- *Budget Comparison:* A financial statement reader will now be able to view not only the actual revenue and expenditures of the Library as compared to the amended budget, but also as compared to the original budget for the General Fund.

While getting used to the new format may take a while, the Management's Discussion and Analysis section of the new reporting format, as mentioned above, provides an overview of the Library's finances, as well as major projects worked on throughout the year, such as the Library's bond projects.

It is important to note that, although the implementation process has received the most attention, there are on-going aspects of GASB 34 that will continue for future year audits. Accumulating the information necessary for the new financial statement format has meant additional work for the Library's accounting department. With additional statements, reconciliation from fund-based to government-wide reporting, and more being added to this new model, there is more preparation needed for the audit, as well as more audit procedures to apply. This increases the workload of both the Library staff and the auditors. The Library's staff has done an excellent job of preparing the necessary schedules, as well as assisting and cooperating with the audit work being done on those schedules.

### **Accounting and other matters**

Bank Reconciliations - As we have noted in the past, we commend the Library for the timeliness of the bank reconciliation process, however, a more formal review of the bank accounts, as evidenced by the signature and approval of a supervisor, would add to the effectiveness of the

reconciliation process. While no reconciling errors were noted in the current year, a more formal review of the bank reconciliations may detect errors in the preparation process that may otherwise go undetected. This will ensure that differences are followed up on in a timely manner, and ensure that all cash transactions are properly accounted for.

Remote Location Receipts - Current cash receipt procedures at locations outside the main branch include agreeing the bank deposit slip to the bank statement after the cash is deposited in the bank by the branch locations. We recommend that a review of the deposit amount to the cash register be made on some regular basis also.


Capital Asset Policy - With the implementation of GASB #34, many decisions were required related to accounting for the Library's capital assets, including capitalization threshold, useful lives, depreciation method, etc. We worked closely with the Library's Director to document the decisions. We recommend the Library continue to review the decisions made and formalize them by adopting a capital asset policy. With the significant construction activity, many assets will be placed in service before the next audit. Such a policy will impact the capitalizing, tracking and depreciating of those assets, which are currently classified as construction in progress.

Credit Card Policy - As you are aware, two credit cards had been issued to the Library for general use and for supplies and maintenance. We are pleased to note that the Library adopted a policy regarding credit card usage and review procedures as discussed in last year's letter to the Board.

We thank you for the opportunity to serve the Grosse Pointe Public Library. We also express our appreciation for the courtesy and cooperation extended to our staff by the administration during the audit. If you have any questions regarding any of the information noted above or presented in the financial statements, please feel free to call us at your convenience.

Very truly yours,

**PLANTE & MORAN, PLLC**

  
Christina M. Kostiuk